

**REPORT OF THE AUDIT OF THE
BOURBON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BOURBON COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Bourbon County Fiscal Court for fiscal year ended June 30, 2004. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Bourbon County, Kentucky. In accordance with OMB Circular A-133, we have issued unqualified opinions on the compliance requirements that are applicable to Bourbon County's major federal programs: Highway Planning and Construction - Wright House Project and the Community Development Block Grant - Cane Ridge Road Project.

Financial Condition:

The fiscal court had net assets of \$13,167,073 as of June 30, 2004. The fiscal court had unrestricted net assets of \$3,942,851 in its governmental activities as of June 30, 2004, with total net assets of \$13,154,728. In its enterprise fund, total net cash and cash equivalents were \$12,345 with total net assets of \$12,345. The fiscal court had total debt principal as of June 30, 2004 of \$5,930,790 with \$510,790 due within the next year.

Report Comment:

- Fiscal Court Should Implement Procedures To Ensure Compliance With The Davis-Bacon Act

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Donnie Foley, Bourbon County Judge/Executive
Members of the Bourbon County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bourbon County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Bourbon County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Bourbon County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Bourbon County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
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The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bourbon County, Kentucky's basic financial statements. The accompanying supplemental information, combining and individual fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of findings and questioned costs and schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of federal expenditures have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 18, 2005 on our consideration of Bourbon County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comment:

- Fiscal Court Should Implement Procedures To Ensure Compliance With The Davis-Bacon Act

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 18, 2005

BOURBON COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Donnie R. Foley	County Judge/Executive
James S. Alexander	Magistrate
Marion Dawson	Magistrate
Barry L. Hay	Magistrate
Dorothy M. Mastin	Magistrate
Donald R. McCarty	Magistrate
George Turley	Magistrate
John N. Smoot	Magistrate

Other Elected Officials:

John J. Brady	County Attorney
Baron Barnes	Jailer
Richard S. Eads	County Clerk
Sherry Rankin	Circuit Court Clerk
Mark L. Matthews	Sheriff
Woodford Wayne Turner	Property Valuation Administrator
Rosemary Kitchen	Coroner

Appointed Personnel:

Mary Allen Hedges	County Treasurer
Mary Allen Hedges	Occupational Tax Collector
Charlotte O. Stone	Finance Officer



Telephone
859-987-2135
859-255-8310
Fax 859-987-2136

Donnie R. Foley
Bourbon County Judge Executive
Courthouse
Paris, Kentucky 40361

Magistrates
James Alexander
Marion Dawson
Barry Hay
Dorothy Jo Mastin
Donnie McCarty
John Smoot
George Turley

Management's Discussion and Analysis

June 30, 2004

The financial management of Bourbon County, Kentucky offers readers of Bourbon County's financial statements this narrative overview and analysis of the financial activities of Bourbon County for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights.

- Bourbon County had net assets of \$13,167,073 as of June 30, 2004. The fiscal court had unrestricted net assets of \$3,942,851 in its governmental activities as of June 30, 2004. In its enterprise fund, cash and cash equivalents were \$12,345 with total assets of \$12,345. Total debt principal as of June 30, 2004 was \$5,930,790 with \$510,790 due within one year.
- The government's total net assets increased by \$1,898,204 from the prior year. This increase is due primarily to the inclusion of capital assets net of accumulated depreciation, which were previously omitted.
- At the close of the current fiscal year, Bourbon County's balance sheet reported a fund balance of \$9,224,447. Of this amount, \$3,942,851 is available for spending at the government's discretion (unreserved fund balance).
- Bourbon County's total indebtedness at the close of fiscal year June 30, 2004 was \$5,930,790, of which \$5,420,000 is long-term debt (due after 1 year) and \$510,790 is short-term debt (to be paid within 1 year). Debt reductions were \$390,236 during the year.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Bourbon County's basic financial statements. Bourbon County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function. This is the first year of implementation and these schedules will be presented next year.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of Bourbon County's finances, in a manner similar to a private-sector business.

Government-wide Financial Statements (Continued)

The *Statement of Net Assets* presents information on all of Bourbon County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Bourbon County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund activities.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Bourbon County's governmental activities include general governmental, protection to persons and property, roads, recreation, and social services. The County has one business type activity - the operation of a jail canteen.

The government-wide financial statements include not only Bourbon County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Bourbon County has one such entity, the Public Properties Detention Center Corporation. It is known as a blended component unit.

Fund Financial Statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Bourbon County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with legal and statutory requirements. All of the funds of Bourbon County can be divided into two broad categories: *governmental funds* and *proprietary funds*.

Governmental Funds Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Governmental Funds (Continued)

Bourbon County maintains twenty-seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, Jail Fund, John Marston Educational Fund, Clifton Gillespie Fund and the Public Properties Corporation Fund, all of which are considered major funds by the County. Local Government Economic Assistance Fund, State Grant Fund, Phase I Fund, Health and Welfare Fund, Educational Trust Checking Fund, E.M. Costello Fund, Garth Fund, Thomas Costello Fund, Hamilton Fund, Robert Meteer Fund, Lucy Anderson Fund, Harrell-Kennedy Fund, Elaine Hinkle Fund, Lou Redmon Fund, Howard Forquer Fund, May Goff Fund, Talbott Clay Fund, Frances Champ Fund, FM Gillespie Fund, Ella Davis Fund and the Bond Proceeds Fund are considered non-major funds and are represented in a combined form.

Bourbon County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Proprietary Funds Proprietary funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Notes to the Financial Statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The following table is the county's Statement of Net Assets for 2004.

Management's Discussion and Analysis
June 30, 2004
(Continued)

Statement of Net Assets

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 3,963,085	\$ 12,345	\$ 3,975,430
Cash and Cash Equivalents -			
Non-Expendable Trust	570,616		570,616
Bonds - Government	1,115,931		1,115,931
Bonds - Corporate	728,537		728,537
Mutual Funds - Fixed	315,034		315,034
Mutual Funds - Equity	1,235,687		1,235,687
Mutual Funds - Taxable	100,000		100,000
Common Stock	1,195,557		1,195,557
Total Current Assets	9,224,447	12,345	9,236,792
Noncurrent Assets:			
Capital Assets - Net of Accumulated			
Depreciation			
Land and Land Improvements	856,877		856,877
Buildings	6,896,517		6,896,517
Other Equipment	363,052		363,052
Vehicles and Equipment	453,258		453,258
Infrastructure Assets - Net			
of Depreciation	1,291,367		1,291,367
Total Noncurrent Assets	9,861,071		9,861,071
Total Assets	19,085,518	12,345	19,097,863
LIABILITIES			
Current Liabilities:			
Revenue Bonds	280,000		280,000
Financing Obligations	230,790		230,790
Noncurrent Liabilities:			
Revenue Bonds	4,255,000		4,255,000
Financing Obligations	1,165,000		1,165,000
Total Liabilities	5,930,790		5,930,790
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	3,930,281		3,930,281
Restricted For:			
Encumbrances	20,234		20,234
Permanent Fund	5,261,362		5,261,362
Unrestricted	3,942,851	12,345	3,955,196

Management's Discussion and Analysis
June 30, 2004
(Continued)

Changes in Net Assets

Governmental Activities. Bourbon County's net assets increased by \$1,899,535 in fiscal year 2004. Key elements of this are as follows:

- Current assets and cash decreased by \$183,801.
- Investment in capital assets, net of related debt increased \$1,693,100 primarily due to the net effect of current year asset additions and depreciation expense.
- Current and long-term liabilities decreased by \$390,236.
- Revenues were \$7,456,601 as reflected in the Statement of Activities.
- Expenditures totaled \$5,557,066 as reflected in the Statement of Activities.

Business-type Activities. Bourbon County's net assets decreased by \$1,331 in fiscal year 2004. Key elements of this are as follows:

- Current assets and cash decreased by \$1,331.

Financial Analysis of the County's Funds

As noted earlier, Bourbon County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview. The focus of Bourbon County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2004 fiscal year, the combined ending fund balance of County governmental funds was \$9,224,447. Approximately 43% (\$3,942,851) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$5,281,596) is reserved to indicate that it is not available for new spending because it is committed.

The County has 6 major governmental funds. These are 1) General Fund; 2) Road Fund; 3) Jail Fund; 4) John Marston Educational Fund; 5) Clifton Gillespie Fund; and the 6) Public Properties Corporation Fund. There are 21 non-major funds. They are the Local Government Economic Assistance Fund, State Grant Fund, Phase I Fund, Health and Welfare Fund, Educational Trust Checking Fund, E.M. Costello Fund, Garth Fund, Thomas Costello Fund, Hamilton Fund, Robert Meter Fund, Lucy Anderson Fund, Harrell-Kennedy Fund, Elaine Hinkle Fund, Lou Redmon Fund, Howard Forquer Fund, May Goff Fund, Talbott Clay Fund, Frances Champ Fund, FM Gillespie Fund, Ella Davis Fund and the Bond Proceeds Fund.

1. The General Fund is the chief operating fund of Bourbon County. At the end of the June 30, 2004 fiscal year, unreserved fund balance of the General Fund was \$1,147,338, while total fund balance was \$1,154,918. The county received \$1,498,114 in Occupational and Net Profit tax revenues. This accounts for approximately 40% of the general fund revenue (excluding all grant and KARP receipts). Likewise, the \$789,876 real property taxes received accounts for approximately 21% of the county's general fund revenues. All other taxes totaling \$445,733 accounts for 12%. The importance of the occupation taxes collected is reflected in these statistics.

Financial Analysis of the County's Funds (Continued)

2. The Road Fund is the fund related to county road and bridge construction and maintenance. The Road Fund had \$338,060 in fund balance at June 30, 2004. The fund balance at the end of the previous year was \$655,276. The fiscal year 2004 expenditures for road projects were \$1,336,142. A grant totaling \$965,850 allowed for the resurfacing of 12.8 miles of the Cane Ridge Road (KY 537).
3. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had a fund balance at June 30, 2004 of \$1,392,019, of which \$1,383,651 was unreserved. The unreserved balance is to be used January 2005 to pay off the jail debt seven years early. This will save the county \$335,475 in interest. Receipts of \$115,000 per year for ten years from a jail construction grant have been invested and the interest accrued to allow for the early pay off. Housing out-of-county prisoners brought in receipts of \$152,875. The General Fund must supplement the jail budget each year—for fiscal year 2004, \$712,488 was transferred to the jail (\$43,294 was interest paid July 1, 2004 on the jail debt). The housing of too many of our own prisoners continues to drain the general fund coffers.
4. The John Marston Educational Fund had an ending balance of \$1,372,825 as of June 30, 2004. The John Marston Educational Fund is a testamentary trust established under the will of John Marston. All interest income is to be paid semi-annually to the Bourbon County Treasurer for the use and benefit of young men and women of Bourbon County in achieving their educational goals.
5. The Clifton Gillespie Fund was established by the 1943 will of Bourbon County resident, Clifton Gillespie. It named the Bourbon County Fiscal Court as trustee to assist needy residents of Bourbon County with hospital expenses. On June 30, 2004, its fund balance was \$1,261,514. Interest income is issued semi-annually to provide means of payment toward indigent medical bills.
6. The Public Properties Corporation Fund had an ending fund balance of \$695 at the end of fiscal year 2004. Its activities are for the debt reduction of the courthouse renovation project. Outstanding debt on this project on June 30, 2004 was \$131,375 comprised of \$125,000 in principal and \$6,375 in interest. The debt will be retired February 2005.

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the business-type activities column of the government-wide statements, but in more detail.

Bourbon County has one enterprise fund, the Jail Canteen Fund. The Jail Canteen Fund had net assets of \$12,345 as of June 30, 2004, which was comprised totally of cash.

General Fund Budgetary Highlights

The County's original budget was amended during the fiscal year increasing the operating budget by \$175,648. Budget amendments were mainly due to grant monies received for animal control equipment, homeland security funding for: sheriff, fire and EMS equipment, extra funding for DES and a cemetery preservation project.

Capital Assets and Debt Administration

Capital Assets. Bourbon County's investment in capital assets for its government and business type activities as of June 30, 2004, amounts to \$9,861,071 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and current year infrastructure additions. The County has elected to report infrastructure assets per GASB 34 provisions.

Major capital asset events during the 2004 fiscal year included the resurfacing of the Cane Ridge Road for \$965,850 and the renovation of the Wright House for \$514,110. These projects were accomplished due to the receipt of grant monies.

Additional information on the County's capital assets can be found in Note 4 of this report.

Long-Term Debt. At the end of the 2004 fiscal year, Bourbon County had total long-term debt outstanding of \$5,930,790. The amount of this debt due within the next year is \$510,790 and \$5,420,000 is due in subsequent years. This debt is for the AOC – Courthouse Annex, Accutran Building, the Bourbon County Detention Center and the renovation of the Bourbon County Courthouse. The debt for the courthouse renovation will be retired on July 1, 2005. Also the early pay-off for the detention center is scheduled for January 3, 2005 when the bonds' par is 100%.

Other matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2005 fiscal year budget:

- As jail expenses continue to escalate due to housing too many of our own county inmates and rising health care costs for inmates, the general fund will continue to see large transfers of funds to the jail fund for its day to day operation.
- Problems with the dome and roof at our historical courthouse are major issues that need to be addressed. A bond project will need to be issued in order to make these repairs estimated between \$500,000 to well over \$1,000,000.

Requests For Information

This financial report is designed to provide a general overview of Bourbon County's finances for all those with an interest in the county government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Bourbon County Treasurer, 301 Main Street, Room 210, Paris, KY 40361.

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BOURBON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

BOURBON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 3,963,085	\$ 12,345	\$ 3,975,430
Cash and Cash Equivalents -			
Non-Expendable Trust	570,616		570,616
Bonds - Government	1,115,931		1,115,931
Bonds - Corporate	728,537		728,537
Mutual Funds - Fixed	315,034		315,034
Mutual Funds - Equity	1,235,687		1,235,687
Mutual Funds - Taxable	100,000		100,000
Common Stock	1,195,557		1,195,557
Total Current Assets	<u>9,224,447</u>	<u>12,345</u>	<u>9,236,792</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated			
Depreciation			
Land and Land Improvements	856,877		856,877
Buildings	6,896,517		6,896,517
Other Equipment	363,052		363,052
Vehicles and Equipment	453,258		453,258
Infrastructure Assets - Net			
of Depreciation	<u>1,291,367</u>		<u>1,291,367</u>
Total Noncurrent Assets	<u>9,861,071</u>		<u>9,861,071</u>
Total Assets	<u>19,085,518</u>	<u>12,345</u>	<u>19,097,863</u>
LIABILITIES			
Current Liabilities:			
Revenue Bonds	280,000		280,000
Financing Obligations	230,790		230,790
Noncurrent Liabilities:			
Revenue Bonds	4,255,000		4,255,000
Financing Obligations	<u>1,165,000</u>		<u>1,165,000</u>
Total Liabilities	<u>5,930,790</u>		<u>5,930,790</u>
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	3,930,281		3,930,281
Restricted For:			
Encumbrances	20,234		20,234
Permanent Fund	5,261,362		5,261,362
Unrestricted	3,942,851	12,345	3,955,196
Total Net Assets	<u>\$ 13,154,728</u>	<u>\$ 12,345</u>	<u>\$ 13,167,073</u>

The accompanying notes are an integral part of the financial statements.

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BOURBON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

BOURBON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,476,589	\$ 74,759	\$ 1,581,882	\$
Protection to Persons and Property	1,159,475	228,031	309,216	115,000
General Health and Sanitation	426,308	6,054	27,730	
Social Services	485,505		7,380	
Recreation and Culture	777,282	24,090		
Roads	863,080		908,134	988,850
Interest on Long-Term Debt	345,697			
Capital Projects	23,130			
Total Governmental Activities	5,557,066	332,934	2,834,342	1,103,850
Business-type Activities:				
Jail Canteen	108,918	107,587		
Total Business-type Activities	108,918	107,587		
Total Primary Government	\$ 5,665,984	\$ 440,521	\$ 2,834,342	\$ 1,103,850

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Disbursements) Receipts and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ 180,052	\$	\$ 180,052
(507,228)		(507,228)
(392,524)		(392,524)
(478,125)		(478,125)
(753,192)		(753,192)
1,033,904		1,033,904
(345,697)		(345,697)
(23,130)		(23,130)
(1,285,940)		(1,285,940)
	(1,331)	(1,331)
	(1,331)	(1,331)
\$ (1,285,940)	\$ (1,331)	\$ (1,287,271)
789,876		789,876
74,408		74,408
192,019		192,019
1,677,525		1,677,525
63,140		63,140
147,372		147,372
241,135		241,135
3,185,475		3,185,475
1,899,535	(1,331)	1,898,204
11,255,193	13,676	11,268,869
\$ 13,154,728	\$ 12,345	\$ 13,167,073

The accompanying notes are an integral part of the financial statements.

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BOURBON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

BOURBON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road And Bridge Fund	Jail Fund	John Marston Educational Fund
ASSETS				
Cash and Cash Equivalents	\$ 1,154,918	\$ 338,060	\$ 1,392,019	\$
Cash and Cash Equivalents - Non-Expendable Trust				116,883
Bonds - Government				180,188
Bonds - Corporate				328,359
Mutual Funds - Fixed				60,000
Mutual Funds - Equity				149,669
Mutual Funds - Taxable				
Common Stock				537,726
Total Assets	<u>\$ 1,154,918</u>	<u>\$ 338,060</u>	<u>\$ 1,392,019</u>	<u>\$ 1,372,825</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 7,580	\$ 4,286	\$ 8,368	\$
Permanent Fund				1,372,825
Unreserved:				
General Fund	1,147,338			
Special Revenue Funds		333,774	1,383,651	
Debt Service Fund				
Total Fund Balances	<u>\$ 1,154,918</u>	<u>\$ 338,060</u>	<u>\$ 1,392,019</u>	<u>\$ 1,372,825</u>

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Clifton Gillespie Fund	Public Properties Corporation Fund	Non- Major Governmental Funds	Total Governmental Funds
\$	\$ 695	\$ 1,077,393	\$ 3,963,085
53,651		425,420	595,954
350,361		585,382	1,115,931
199,671		175,169	703,199
		255,034	315,034
		1,086,018	1,235,687
		100,000	100,000
657,831			1,195,557
<u>\$ 1,261,514</u>	<u>\$ 695</u>	<u>\$ 3,704,416</u>	<u>\$ 9,224,447</u>

\$	\$	\$	\$ 20,234
1,261,514		2,627,023	5,261,362
			1,147,338
		1,077,393	2,794,818
	695		695
<u>\$ 1,261,514</u>	<u>\$ 695</u>	<u>\$ 3,704,416</u>	<u>\$ 9,224,447</u>

Reconciliation of the Balance Sheet - Governmental Funds to Statement of Changes In Net Assets:

Total Fund Balances	\$ 9,224,447
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	11,802,355
Depreciation	(1,941,284)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(1,395,790)
Bonded Debt	(4,535,000)
Net Assets Of Governmental Activities	<u>\$ 13,154,728</u>

The accompanying notes are an integral part of the financial statements.

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BOURBON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

BOURBON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	General Fund	Road Fund	Jail Fund	John Marston Educational Fund
REVENUES				
Taxes	\$ 2,733,723	\$	\$	\$
Excess Fees	63,140			
Licenses and Permits	44,884			
Intergovernmental	1,140,247	1,872,441	465,497	
Charges for Services	20,193		36,883	
Miscellaneous	147,646	19,960	5,416	
Interest	15,284	2,880	28,871	49,366
Total Revenues	<u>4,165,117</u>	<u>1,895,281</u>	<u>536,667</u>	<u>49,366</u>
EXPENDITURES				
General Government	820,610			
Protection to Persons and Property	691,345		727,717	
General Health and Sanitation	167,801	1,343		
Social Services	199,658			7,707
Recreation and Culture	774,120			
Roads		755,449		
Debt Service	10,418		214,387	
Capital Projects		1,336,142		
Administration	498,219	119,563	163,408	
Total Expenditures	<u>3,162,171</u>	<u>2,212,497</u>	<u>1,105,512</u>	<u>7,707</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,002,946</u>	<u>(317,216)</u>	<u>(568,845)</u>	<u>41,659</u>
Other Financing Sources (Uses)				
Transfers to Bond Proceeds for AOC				
Transfers From AOC				
Transfer to Fiscal Court				(43,233)
Gain (Loss) on Sale of Investments				(6,044)
Transfers From Principal Accounts				
Transfers From Other Funds			712,488	
Transfers To Other Funds	(839,728)			
Total Other Financing Sources (Uses)	<u>(839,728)</u>		<u>712,488</u>	<u>(49,277)</u>
Net Change in Fund Balances	163,218	(317,216)	143,643	(7,618)
Fund Balances - Beginning	991,700	655,276	1,248,376	1,380,443
Fund Balances - Ending	<u>\$ 1,154,918</u>	<u>\$ 338,060</u>	<u>\$ 1,392,019</u>	<u>\$ 1,372,825</u>

The accompanying notes are an integral part of the financial statements.

BOURBON COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Clifton Gillespie Fund	Public Properties Corporation Fund	Non- Major Governmental Funds	Total Governmental Funds
\$	\$	\$	\$ 2,733,723
			63,140
			44,884
		654,751	4,132,936
			57,076
	685	10,000	183,707
42,754	10	101,970	241,135
42,754	695	766,721	7,456,601
		6,138	826,748
		41,695	1,460,757
		255,485	424,629
6,736		514,708	728,809
			774,120
			755,449
	127,240	383,888	735,933
		46,322	1,382,464
		397,495	1,178,685
6,736	127,240	1,645,731	8,267,594
36,018	(126,545)	(879,010)	(810,993)
	(116,944)		(116,944)
	116,944	383,888	500,832
(39,713)		(64,032)	(146,978)
47,006		300	41,262
		349,020	349,020
	127,240		839,728
			(839,728)
7,293	127,240	669,176	627,192
43,311	695	(209,834)	(183,801)
1,218,203		3,914,250	9,408,248
\$ 1,261,514	\$ 695	\$ 3,704,416	\$ 9,224,447

The accompanying notes are an integral part of the financial statements.

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**BOURBON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

BOURBON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$	(183,801)
--	----	-----------

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental Funds report capital outlays as expenditures. However, in the
Statement of Activities the cost of those assets are allocated over their
estimated useful lives and reported as depreciation expense.

Capital Outlay	1,997,511	
Depreciation Expense	(304,411)	

Lease and bond principal payments are expensed in the Governmental Funds
as a use of current financial resources.

Financing Obligations Principal Payments	125,236	
Bond Principal Payments	<u>265,000</u>	

Change in Net Assets of Governmental Activities	\$	<u><u>1,899,535</u></u>
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BOURBON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

BOURBON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

	Business-Type Activities - Enterprise Fund
	<u>Jail Canteen Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 12,345
Total Assets	<u>12,345</u>
Net Assets	
Unrestricted	12,345
Total Net Assets	<u><u>\$ 12,345</u></u>

The accompanying notes are an integral part of the financial statements.

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BOURBON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

BOURBON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 7,018
Total Operating Revenues	<u>7,018</u>
Operating Expenses	
Cost of Sales	47,706
Educational and Recreational	942
Miscellaneous	<u>801</u>
Total Operating Expenses	<u>49,449</u>
Operating Income (Loss)	<u>(42,431)</u>
Nonoperating Revenues (Expenses)	
Amounts Held In Custody For Inmate	100,569
Inmate Refunds	<u>(59,469)</u>
Total Nonoperating Revenues (Expenses)	<u>41,100</u>
Change In Net Assets	(1,331)
Total Net Assets - Beginning	<u>13,676</u>
Total Net Assets - Ending	<u><u>\$ 12,345</u></u>

The accompanying notes are an integral part of the financial statements.

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BOURBON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

BOURBON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 7,018
Cost of Sales	(47,706)
Educational and Recreational	(942)
Miscellaneous	(801)
Net Cash Provided By Operating Activities	<u>(42,431)</u>
Cash Flows From Noncapital Financing Activities	
Amounts Held In Custody For Inmates	100,569
Inmate Refunds on Accounts	(59,469)
Net Cash Provided By Noncapital Financing Activities	<u>41,100</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,331)
Cash and Cash Equivalents - July 1	<u>13,676</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 12,345</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	<u>\$ (42,431)</u>
Total Cash Provided By Operating Activities	<u><u>\$ (42,431)</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets among other items are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Bourbon County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Bourbon County Public Properties Corporation

The Bourbon County Public Properties Corporation cannot be sued in its own name without recourse to the Bourbon County Fiscal Court, which appoints a voting majority consisting of fiscal court members and the County Attorney. The fiscal court is able to impose its will on the Corporation. The Corporation is created solely for the benefit of the fiscal court per KRS 58.180 to act as an agent in the acquisition and financing of any public project. The fiscal court has access to the Corporation's resources, is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the fiscal court. This component unit is blended within the financial statements of the county.

C. Bourbon County Elected Officials Not Part Of Bourbon County, Kentucky

Kentucky law provides for election of the below officials from the geographic area constituting Bourbon County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Bourbon County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary and fiduciary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

John Marston Educational Fund - This fund was established by the will and codicil of John Marston. The will imposed that the funds be held in perpetuity, which means that the original principal amount remain intact. The primary purpose of this fund is to account for income generated by the principal. The income less applicable administrative costs is to be spent for educational scholarships. The county has a committee, appointed by the County Judge/Executive, that decides how the money shall be disbursed based on applications received by the County Judge/Executive's office.

Clifton Gillespie Fund - This fund was established by the will and codicil of Clifton Gillespie. The will imposed that the funds be held in perpetuity, which means that the original principal amount remain intact. The primary purpose of this fund is to provide financial assistance with hospitals to indigent residents of Bourbon County. The County Judge/Executive decides who shall receive assistance from this fund by applications submitted. Each eligible person is limited to \$2,000.

Public Properties Corporation Fund - The Public Properties Corporation Fund accounts for the activities of the Public Properties Corporation, a blended component unit of the county. The Public Properties Corporation issued debt to complete renovations on the courthouse. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, State Grant Fund, Phase I Fund, Health and Welfare Fund, Educational Trust Checking Fund, E.M. Costello Fund, Garth Fund, Thomas Costello Fund, Hamilton Fund, Robert Meter Fund, Lucy Anderson Fund, Harrell-Kennedy Fund, Elaine Hinkle Fund, Lou Redmon Fund, Howard Forquer Fund, May Goff Fund, Talbott Clay Fund, Frances Champ Fund, FM Gillespie Fund Ella Davis Fund and Bond Proceeds Fund. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1, following the assessment and subject to lien and sale February 1, following the delinquency date.

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Government Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 2,500	10-50

H. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

I. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

J. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Budgetary Information (Continued)

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Public Properties Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds.

K. Related Organization and Joint Venture

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Judy Water Association is considered a related organization of Bourbon County Fiscal Court.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the Paris-Bourbon County Economic Development Authority is considered a joint venture of the Bourbon County Fiscal Court.

Note 2. Deposits and Investments

A. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the primary government and component units' deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the primary government or component units as beneficiary/obligee on the bond.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments

The county's trust fund investments are categorized below to give an indication of the level of risk assumed by the county at year-end. These funds were established by the will and codicils of various Bourbon County residents. The investments are held in nominee names by the various financial institutions that hold the investments. The Bourbon County Fiscal Court acts only as a disbursement agent for the interest earned on the investments for purposes as set forth by the establishment of the trust. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

Investments	Category			Carrying Amount	Market Value
	1	2	3		
Cash Equivalents	\$	\$	\$ 478,267	\$ 452,929	\$ 452,929
Certificate of Deposit			117,687	117,687	117,687
Totals			595,954	570,616	570,616
Accrued Interest					380,016
Bonds - Government			1,115,931	1,115,931	990,012
Bonds - Corporate			703,199	728,537	537,211
Mutual Funds - Fixed			315,034	315,034	311,083
Mutual Funds - Equity			1,235,687	1,235,687	1,604,541
Mutual Funds - Taxable			100,000	100,000	104,253
Common Stock			1,195,557	1,195,557	1,470,713
Totals	\$ 0	\$ 0	\$ 5,261,362	\$ 5,261,362	\$ 5,968,445

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Lease Participation Agreement

During the fiscal year ended June 30, 1992, the Bourbon County Fiscal Court entered into a twenty year, \$2,300,000 lease participation agreement with GMB Financial Group, Inc. for the construction of a detention center. As specified by terms of the lease, principal payments are due annually on January 1, and interest payments are due semiannually on July 1 and January 1, respectively. As of June 30, 2004, the outstanding principal balance was \$1,295,000.

Date Due	Scheduled Interest	Scheduled Principal	Total
7/1/2004	\$ 43,294	\$ -	\$ 43,294
1/1/2005	43,294	130,000	173,294
7/1/2005	39,069		39,069
1/1/2006	39,069	135,000	174,069
7/1/2006	34,681		34,681
1/1/2007	34,681	145,000	179,681
7/1/2007	29,969		29,969
1/1/2008	29,969	155,000	184,969
7/1/2008	24,738		24,738
1/1/2009	24,738	165,000	189,738
7/1/2009- 1/1/2012	78,563	565,000	643,563
Total	\$ 422,065	\$ 1,295,000	\$1,717,065

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 856,877	\$	\$	\$ 856,877
Total Capital Assets Not Being Depreciated	856,877			856,877
Capital Assets, Being Depreciated:				
Buildings	7,264,425	514,110		7,778,535
Other Equipment	593,048	102,523		695,571
Vehicles and Equipment	1,090,494	21,544		1,112,038
Infrastructure		1,359,334		1,359,334
Total Capital Assets Being Depreciated	8,947,967	1,997,511		10,945,478
Less Accumulated Depreciation For:				
Buildings	(773,948)	(108,070)		(882,018)
Other Equipment	(290,183)	(42,336)		(332,519)
Vehicles and Equipment	(572,742)	(86,038)		(658,780)
Infrastructure**		(67,967)		(67,967)
Total Accumulated Depreciation	(1,636,873)	(304,411)		(1,941,284)
Total Capital Assets, Being Depreciated, Net	7,311,094	1,693,100		9,004,194
Governmental Activities Capital Assets, Net	\$ 8,167,971	\$ 1,693,100	\$ 0	\$ 9,861,071

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 38,981
Protection to Persons and Property	148,557
General Health and Sanitation	1,679
Recreation and Culture	7,563
Roads, Including Depreciation of General Infrastructure Assets	<u>107,631</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 304,411</u>

**The county has elected not to report infrastructure assets retroactively; therefore, only current year infrastructure costs are reflected as a capital asset. Future infrastructure assets expenditures will be capitalized and expensed according to the capitalization policy adopted by the county.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Short-term Debt

In July 2003, Bourbon County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$1,891,900, with principal being due in January 2004. While the county did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$8,356.

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
Kentucky Advance Revenue Program	\$ 0	\$ 1,891,900	\$ 1,891,900	\$ 0
Governmental Activities				
Short-term Liabilities	\$ 0	\$ 1,891,900	\$ 1,891,900	\$ 0

Note 6. Long-term Debt

- A. During fiscal year ending June 30, 1998, the Bourbon County Public Properties Corporation entered into a promissory term note agreement with Community Ventures Corporation, at a fixed interest rate of 5 percent, for the purchase and renovation of a manufacturing facility. The Public Properties Corporation is obligated to pay \$131,500 in principal payments over seven years, beginning October 5, 1997, with a final balloon payment of \$100,308 due on September 5, 2004. As of June 30, 2004, the outstanding principal was \$100,790.

Fiscal Year Ended June 30,	Principal	Interest
2005	\$ 100,790	\$ 1,254
Totals	\$ 100,790	\$ 1,254

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Long-term Debt (Continued)

- B. On May 5, 1995, the Bourbon County Public Properties Corporation issued bonds, Series 1995, in the amount of \$1,000,000, for the purpose of paying courthouse renovation costs. Principal payments are made annually on February 1, and interest on the bonds is payable semiannually February 1 and August 1. To aid in debt relief, the Administrative Office of the Courts makes a biannual payment in the amount of \$20,120 directly to the Paying Agent. The County is liable for the remaining difference. As of June 30, 2004, the outstanding principal balance was \$125,000.

<u>Fiscal Year Ended June 30,</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2005	\$ 6,375	\$ 125,000
Totals	<u>\$ 6,375</u>	<u>\$ 125,000</u>

- C. On August 1, 2000, the Bourbon County Public Properties Corporation issued bonds, Series 2000, in the amount of \$4,075,000, for the purpose of constructing a circuit and district courts facility. Principal payments are made annually on February 1, and interest on the bonds is payable on February 1 and August 1. As of June 30, 2004, the outstanding principal balance was \$4,410,000.

<u>Fiscal Year Ended June 30,</u>	<u>Interest</u>	<u>Principal</u>
2005	\$ 226,574	\$ 155,000
2006	219,018	165,000
2007	210,974	175,000
2008	202,442	180,000
2009	193,442	190,000
2010-2014	814,482	1,105,000
2015-2019	498,623	1,425,000
2020-2022	<u>107,100</u>	<u>1,015,000</u>
Totals	<u>\$ 2,472,655</u>	<u>\$ 4,410,000</u>

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Long-term Debt (Continued)

D. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 4,800,000	\$	\$ (265,000)	\$ 4,535,000	\$ 280,000
Financing Obligations	1,521,026		(125,236)	1,395,790	230,790
Governmental Activities					
Long-term Liabilities	<u>\$ 6,321,026</u>	<u>\$ 0</u>	<u>\$ (390,236)</u>	<u>\$ 5,930,790</u>	<u>\$ 510,790</u>

Note 7. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$99,571 in interest on financing obligations and \$246,126 in interest on bonds and notes.

Note 8. Commitments and Contingencies

During the fiscal year 2003 audit, the county informed the auditors of a situation involving an investigation by the Commonwealth of Kentucky's Office of the Attorney General. They were investigating the fact that three employees of the county, which work at the fire department, had allegedly falsified time cards in order to receive increased compensation. The county informed the auditors that one employee had pled guilty while the two remaining employees have entered a not guilty plea. As of the date of this audit, the amount of restitution has not been calculated for the guilty plea; therefore a contingency amount has not been determined. The trial date for the two remaining employees has been tentatively set for November 2005.

Note 9. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 9. Employee Retirement System (Continued)

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124 or by telephone at (502) 564-4646.

Note 10. Deferred Compensation

The Bourbon County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report, or by telephone at 502-573-7925.

Note 11. Insurance

For the fiscal year ended June 30, 2004, Bourbon County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 12. Subsequent Event

A. Bourbon County Public Properties

On November 15, 2004, the Bourbon County Public Properties Corporation entered into a promissory term note agreement with Community Ventures Corporation for the financing of the balloon payment due on September 5, 2004 for the original promissory note issued during fiscal year ended June 30, 1998. The original note was issued to purchase and renovate a manufacturing facility. The Public Properties Corporation is obligated to pay \$98,656 over five years, beginning December 15, 2004, with a final balloon payment due on November 19, 2009, on which date all of the remaining unpaid principal of and accrued interest on this note shall be paid.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 12. Subsequent Event (Continued)

B. Bourbon County Detention Center

During the fiscal year 2004 audit, auditors were made aware that there were two losses reported by the Bourbon County Jailer, Baron Barnes. These losses relate to missing bail bond money collected by the Bourbon County Detention Center for the Circuit Clerk's Office. The first loss in the amount of \$204 occurred February 18, 2005. This was reported to the Kentucky State Police on March 30, 2005. The court case related to this bail bond has been settled and the amount of the bond went towards the defendant's fine. Since the money had not been recovered, the Bourbon County Fiscal Court paid the bond amount of \$204. The second loss in the amount of \$2,204 occurred on February 25, 2005. Per inquiry of the Jailer, this was also reported to the Kentucky State Police. The court case related to this bail bond is still pending. However, since the bond money has not been recovered the Fiscal Court may have to pay the bond when the court case related to this bond is settled. The Bourbon County Jailer stated that these cases are still open cases under investigation by the Kentucky State Police.

Auditors were also made aware of a case involving allegations of money missing from an inmate at the Bourbon County Detention Center. The Jailer also reported this to the Kentucky State Police. The Jailer stated that this is still an open case under investigation by the Kentucky State Police.

Note 13. Changes in Accounting Principles and Prior Period Adjustments

The county has elected to implement Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental activities is an increase of \$1,846,945, due to the inclusion of capital assets previously not reported.

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BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 2,444,250	\$ 2,444,250	\$ 2,733,723	\$ 289,473
Excess Fees	43,253	43,253	63,140	19,887
Licenses and Permits	32,300	32,300	44,884	12,584
Intergovernmental Revenue	2,016,188	2,191,836	1,140,247	(1,051,589)
Charges for Services	14,000	14,000	20,193	6,193
Miscellaneous	117,188	117,188	147,646	30,458
Interest	32,072	32,072	27,366	(4,706)
Total Revenues	<u>4,699,251</u>	<u>4,874,899</u>	<u>4,177,199</u>	<u>(697,699)</u>
EXPENDITURES				
General Government	1,189,883	1,200,119	820,610	379,509
Protection to Persons and Property	770,590	874,979	691,345	183,634
General Health and Sanitation	622,555	632,475	167,801	464,674
Social Services	254,845	260,090	199,658	60,432
Recreation and Culture	1,277,264	1,279,201	774,120	505,081
Debt Service	2,050,303	2,050,303	1,914,400	135,903
Administration	683,991	727,912	498,219	229,693
Total Expenditures	<u>6,849,431</u>	<u>7,025,079</u>	<u>5,066,153</u>	<u>1,958,925</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(2,150,180)</u>	<u>(2,150,180)</u>	<u>(888,954)</u>	<u>(1,261,226)</u>
OTHER FINANCING SOURCES (USES)				
Kentucky Advance Revenue Program	1,891,900	1,891,900	1,891,900	0
Transfers To Other Funds	<u>(741,720)</u>	<u>(741,720)</u>	<u>(839,728)</u>	<u>(98,008)</u>
Total Other Financing Sources (Uses)	<u>1,150,180</u>	<u>1,150,180</u>	<u>1,052,172</u>	<u>(98,008)</u>
Net Changes in Fund Balance	(1,000,000)	(1,000,000)	163,218	1,163,218
Fund Balance - Beginning	<u>1,000,000</u>	<u>1,000,000</u>	<u>991,700</u>	<u>(8,300)</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,154,918</u>	<u>\$ 1,154,918</u>

BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004 (Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,039,360	\$ 2,005,210	\$ 1,872,441	\$ (132,769)
Miscellaneous	300	300	19,960	19,660
Interest	11,000	11,000	2,880	(8,120)
Total Revenues	1,050,660	2,016,510	1,895,281	(121,229)
EXPENDITURES				
General Health and Sanitation	23,329	23,329	1,343	21,986
Roads	733,593	929,063	755,449	173,614
Capital Projects	400,000	1,365,850	1,336,142	29,708
Administration	493,738	298,268	119,563	178,705
Total Expenditures	1,650,660	2,616,510	2,212,497	404,013
Excess (Deficiency) of Revenues Over Expenditures	(600,000)	(600,000)	(317,216)	282,784
Net Changes in Fund Balance	(600,000)	(600,000)	(317,216)	282,784
Fund Balance - Beginning	600,000	600,000	655,276	55,276
Fund Balance - Ending	\$ -	\$ -	\$ 338,060	\$ 338,060

BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004 (Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 427,764	\$ 427,764	\$ 465,497	\$ 37,733
Charges for Services	43,100	43,100	36,883	(6,217)
Miscellaneous	7,000	7,000	5,416	(1,584)
Interest	28,462	28,462	28,871	409
Total Revenues	506,326	506,326	536,667	30,341
EXPENDITURES				
Protection to Persons and Property	813,995	811,502	727,717	83,785
Debt Service	1,490,086	1,490,086	214,387	1,275,699
Administration	191,451	193,944	163,408	30,536
Total Expenditures	2,495,532	2,495,532	1,105,512	1,390,020
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(1,989,206)	(1,989,206)	(568,845)	1,420,361
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	741,720	741,720	712,488	(29,232)
Total Other Financing Sources (Uses)	741,720	741,720	712,488	(29,232)
Net Changes in Fund Balance	(1,247,486)	(1,247,486)	143,643	1,391,129
Fund Balance - Beginning	1,247,486	1,247,486	1,248,376	890
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,392,019	\$ 1,392,019

BOURBON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

BOURBON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

BOURBON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	Local Government Economic Assistance Fund	State Grant Fund	Phase I Fund	Health and Welfare Fund
ASSETS				
Cash and Cash Equivalents	\$ 110,910	\$	\$ 185,652	\$ 16,312
Cash and Cash Equivalents - NonExpendable Trust				
Bonds - Government				
Bonds - Corporate				
Mutual Funds - Fixed				
Mutual Funds - Equity				
Mutual Funds - Taxable				
Total Assets	<u>\$ 110,910</u>	<u>\$ 0</u>	<u>\$ 185,652</u>	<u>\$ 16,312</u>
FUND BALANCES				
Reserved:				
Permanent Fund	\$	\$	\$	\$
Unreserved:				
Special Revenue Funds	<u>110,910</u>	<u></u>	<u>185,652</u>	<u>16,312</u>
Total Fund Balances	<u>\$ 110,910</u>	<u>\$ 0</u>	<u>\$ 185,652</u>	<u>\$ 16,312</u>

BOURBON COUNTY
 COMBINING BALANCE SHEET -
 NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 Other Supplementary Information
 June 30, 2004
 (Continued)

Educational Trust Checking Fund	E.M. Costello Fund	Garth Fund	Thomas Costello Fund	Hamilton Fund	Robert Meter Fund	Lucy Anderson Fund
\$ 437,001	\$	\$	\$	\$	\$	\$
	1,171	6,096	212	425	75,097	61,029
	37,877	116,699	5,429	10,851	182,770	
					80,140	
						144,981
					366,970	105,000
						100,000
<u>\$ 437,001</u>	<u>\$ 39,048</u>	<u>\$ 122,795</u>	<u>\$ 5,641</u>	<u>\$ 11,276</u>	<u>\$ 704,977</u>	<u>\$ 411,010</u>
\$	\$ 39,048	\$ 122,795	\$ 5,641	\$ 11,276	\$ 704,977	\$ 411,010
<u>437,001</u>						
<u>\$ 437,001</u>	<u>\$ 39,048</u>	<u>\$ 122,795</u>	<u>\$ 5,641</u>	<u>\$ 11,276</u>	<u>\$ 704,977</u>	<u>\$ 411,010</u>

BOURBON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2004
(Continued)

	Harrell- Kennedy Fund	Elaine Hinkle Fund	Lou Redmon Fund	Howard Forquer Fund
ASSETS				
Cash and Cash Equivalents	\$	\$	\$	\$
Cash and Cash Equivalents - NonExpendable Trust	1,107	612	1,664	137,881
Bonds - Government				105,812
Bonds - Corporate				45,224
Mutual Funds - Fixed	17,306	11,578	12,169	
Mutual Funds - Equity	15,008	11,984	20,169	276,713
Mutual Funds - Taxable				
Total Assets	<u>\$ 33,421</u>	<u>\$ 24,174</u>	<u>\$ 34,002</u>	<u>\$ 565,630</u>
FUND BALANCES				
Reserved:				
Permanent Fund	\$ 33,421	\$ 24,174	\$ 34,002	\$ 565,630
Unreserved:				
Special Revenue Funds				
Total Fund Balances	<u>\$ 33,421</u>	<u>\$ 24,174</u>	<u>\$ 34,002</u>	<u>\$ 565,630</u>

BOURBON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2004
(Continued)

May Goff Fund	Talbott Clay Fund	Frances Champ Fund	FM Gillespie Fund	Ella Davis Fund	Bond Proceeds Fund	Total Non-Major Governmental Funds
\$	\$	\$	\$	\$	\$ 327,518	1,077,393
2,242	82,329	4,207	49,936	1,412		425,420
	64,532	49,585		11,827		585,382
14,799			25,140	9,866		175,169
9,000	20,000		40,000			255,034
34,966	128,000		85,498	41,710		1,086,018
						100,000
<u>\$ 61,007</u>	<u>\$ 294,861</u>	<u>\$ 53,792</u>	<u>\$ 200,574</u>	<u>\$ 64,815</u>	<u>\$ 327,518</u>	<u>\$ 3,704,416</u>
\$ 61,007	\$ 294,861	\$ 53,792	\$ 200,574	\$ 64,815	\$	\$ 2,627,023
					327,518	1,077,393
<u>\$ 61,007</u>	<u>\$ 294,861</u>	<u>\$ 53,792</u>	<u>\$ 200,574</u>	<u>\$ 64,815</u>	<u>\$ 327,518</u>	<u>\$ 3,704,416</u>

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BOURBON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

BOURBON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Local Government Economic Assistance Fund	State Grant Fund	Phase I Fund	Health and Welfare Fund
REVENUES				
Intergovernmental	\$ 86,955	\$ 268,296	\$ 299,500	\$
Miscellaneous				
Interest	556		1,957	219
Total Revenues	<u>\$ 87,511</u>	<u>\$ 268,296</u>	<u>\$ 301,457</u>	<u>\$ 219</u>
EXPENDITURES				
General Government	\$	\$	\$	\$
Protection to Persons and Property	28,884	12,811		
General Health and Sanitation		255,485		
Social Services				1,821
Debt Service				
Capital Projects	46,322			
Administration			397,495	
Total Expenditures	<u>\$ 75,206</u>	<u>\$ 268,296</u>	<u>\$ 397,495</u>	<u>\$ 1,821</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>12,305</u>		<u>(96,038)</u>	<u>(1,602)</u>
OTHER FINANCING SOURCES (USES)				
Transfer in From AOC				
Transfer to Fiscal Court				
Gain (Loss) on Sale of Investments				
Transfers From Principal Accounts				
Total Other Financing Sources (Uses)				
Net Change in Fund Balances	12,305		(96,038)	(1,602)
Fund Balances - Beginning	98,605		281,690	17,914
Fund Balances - Ending	<u>\$ 110,910</u>	<u>\$ 0</u>	<u>\$ 185,652</u>	<u>\$ 16,312</u>

BOURBON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004
(Continued)

Educational Trust Checking Fund	E.M. Costello Fund	Garth Fund	Thomas Costello Fund	Hamilton Fund	Robert Meter Fund
\$	\$	\$	\$	\$	\$
3,991	3,371	7,644	425	850	25,411
\$ 3,991	\$ 3,371	\$ 7,644	\$ 425	\$ 850	\$ 25,411
\$	\$	\$	\$	\$	\$
445,037		214	28	57	56,523
\$ 445,037	\$ 0	\$ 214	\$ 28	\$ 57	\$ 56,523
(441,046)	3,371	7,430	397	793	(31,112)
	(2,247)	(5,660)	(425)	(850)	504
349,020					
349,020	(2,247)	(5,660)	(425)	(850)	504
(92,026)	1,124	1,770	(28)	(57)	(30,608)
529,027	37,924	121,025	5,669	11,333	735,585
\$ 437,001	\$ 39,048	\$ 122,795	\$ 5,641	\$ 11,276	\$ 704,977

BOURBON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004
(Continued)

	Lucy Anderson Fund	Harrell - Kennedy Fund	Elaine Hinkle Fund	Lou Redmon Fund
REVENUES				
Intergovernmental	\$	\$	\$	\$
Miscellaneous			10,000	
Interest	13,182	962	413	892
Total Revenues	<u>\$ 13,182</u>	<u>\$ 962</u>	<u>\$ 10,413</u>	<u>\$ 892</u>
EXPENDITURES				
General Government	\$	\$	\$	\$
Protection to Persons and Property				
General Health and Sanitation				
Social Services	3,082	400	201	430
Debt Service				
Capital Projects				
Administration				
Total Expenditures	<u>\$ 3,082</u>	<u>\$ 400</u>	<u>\$ 201</u>	<u>\$ 430</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>10,100</u>	<u>562</u>	<u>10,212</u>	<u>462</u>
OTHER FINANCING SOURCES (USES)				
Transfer in From AOC				
Transfer to Fiscal Court	(14,595)	(770)	(186)	
Gain (Loss) on Sale of Investments	(134)	33	4	(736)
Transfers From Principal Accounts				
Total Other Financing Sources (Uses)	<u>(14,729)</u>	<u>(737)</u>	<u>(182)</u>	<u>(736)</u>
Net Change in Fund Balances	(4,629)	(175)	10,030	(274)
Fund Balances - Beginning	<u>415,639</u>	<u>33,596</u>	<u>14,144</u>	<u>34,276</u>
Fund Balances - Ending	<u><u>\$ 411,010</u></u>	<u><u>\$ 33,421</u></u>	<u><u>\$ 24,174</u></u>	<u><u>\$ 34,002</u></u>

BOURBON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004
(Continued)

Howard Forquer Fund	May Goff Fund	Talbott Clay Fund	Frances Champ Fund	FM Gillespie Fund	Ella Davis Fund
\$	\$	\$	\$	\$	\$
16,431	1,951	9,372	4,126	6,316	1,720
<u>\$ 16,431</u>	<u>\$ 1,951</u>	<u>\$ 9,372</u>	<u>\$ 4,126</u>	<u>\$ 6,316</u>	<u>\$ 1,720</u>
\$	\$	\$	\$	\$	\$
3,299	427	1,555	113	1,092	428
<u>\$ 3,299</u>	<u>\$ 427</u>	<u>\$ 1,555</u>	<u>\$ 113</u>	<u>\$ 1,092</u>	<u>\$ 428</u>
13,132	1,524	7,817	4,013	5,224	1,292
(14,957)	(2,104)	(10,152)	(3,050)	(5,000)	(4,036)
214	61	(117)		50	421
<u>(14,743)</u>	<u>(2,043)</u>	<u>(10,269)</u>	<u>(3,050)</u>	<u>(4,950)</u>	<u>(3,615)</u>
(1,611)	(519)	(2,452)	963	274	(2,323)
567,241	61,526	297,313	52,829	200,300	67,138
<u>\$ 565,630</u>	<u>\$ 61,007</u>	<u>\$ 294,861</u>	<u>\$ 53,792</u>	<u>\$ 200,574</u>	<u>\$ 64,815</u>

BOURBON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004
(Continued)

	Bond Proceeds Fund	Total Non-Major Governmental Funds
REVENUES		
Intergovernmental	\$	\$ 654,751
Miscellaneous		10,000
Interest	2,181	101,970
Total Revenues	<u>\$ 2,181</u>	<u>\$ 766,721</u>
EXPENDITURES		
General Government	\$ 6,139	\$ 6,139
Protection to Persons and Property		41,695
General Health and Sanitation		255,485
Social Services		514,707
Debt Service	383,888	383,888
Capital Projects		46,322
Administration		397,495
Total Expenditures	<u>\$ 390,027</u>	<u>\$ 1,645,731</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(387,846)</u>	<u>(879,010)</u>
OTHER FINANCING SOURCES (USES)		
Transfer in From AOC	383,888	383,888
Transfer to Fiscal Court		(64,032)
Gain (Loss) on Sale of Investments		300
Transfers From Principal Accounts		349,020
Total Other Financing Sources (Uses)	<u>383,888</u>	<u>669,176</u>
Net Change in Fund Balances	(3,958)	(209,834)
Fund Balances - Beginning	<u>331,476</u>	<u>3,914,250</u>
Fund Balances - Ending	<u><u>\$ 327,518</u></u>	<u><u>\$ 3,704,416</u></u>

BOURBON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2004

BOURBON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2004

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Bourbon County, Kentucky.
2. No reportable conditions are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Bourbon County were disclosed during the audit.
4. One reportable condition relating to the audit of the major federal awards programs is reported in the Independent Auditor's Report. The condition is reported as a material weakness.
5. The auditor's report on compliance for the audit of the major federal awards programs for Bourbon County expresses a qualified opinion.
6. Audit findings relative to the major federal awards programs for Bourbon County reported in Part C of this schedule.
7. The programs tested as major programs were: Highway Planning and Construction – Wright House Project and the Community Development Block Grant – Cane Ridge Road Project. The threshold for distinguishing Type A and B programs was \$300,000.
8. Bourbon County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

2004-1 - Fiscal Court Should Implement Procedures To Ensure Compliance With The Davis-Bacon Act

During our audit, it was noted that the Fiscal Court did not ensure contractors involved in federal projects submitted the required certified payroll reports; therefore, it appears that the Fiscal Court was not monitoring compliance with the Davis-Bacon Act. As a condition of receiving federal awards, the Fiscal Court agreed to comply with applicable laws, regulations and the provisions of contracts and grant agreements and to maintain internal control to reasonably ensure compliance with those requirements. As a condition of receiving federal grant awards, the Fiscal Court is responsible for monitoring compliance with the Davis-Bacon Act. The main objective of this monitoring is to ensure that contractors and subcontractors are properly notified of the Davis-Bacon Act requirements pertaining to the prevailing wage laws, the required certified payrolls are submitted to the Fiscal Court, certified payroll reports are reviewed and monitored by the Fiscal Court to ensure laborers employed by contractors are paid the prevailing wage rate as required and that appropriate action is taken by the Fiscal Court for known departures.

In the future, we recommend that the Fiscal Court take steps to ensure that policies and procedures are in place to provide reasonable assurance that:

- The Fiscal Court's Control Environment Is Conducive To And Reflects An Appropriate Management Attitude Toward Internal Control In Regard to Davis-Bacon Act Monitoring.
- The Fiscal Court Has Implemented Policies And Procedures To Provide Reasonable Assurance That Laborers Employed By Contractors Are Paid Prevailing Wage Rates For Projects Covered By The Davis-Bacon Act.

BOURBON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2004
(Continued)

2004-1 - Fiscal Court Should Implement Procedures To Ensure Compliance With The Davis-Bacon Act
(Continued)

- The Fiscal Court receives and reviews certified payrolls as required and takes appropriate action for known departures.

County Judge/Executive Donnie Foley's Response:

All the engineering and architectural work on this project was monitored and supervised by the Kentucky Department of Transportation as part of the Paris Pike Corridor Project. They only passed the fund for payments to the contractors, after they had reviewed and approved all expenses, to the county for the actual payment.

In the future, we will ensure that certified payrolls are provided to the county for auditing.

Prior Year Findings and Questioned Costs - Major Federal Awards Program Audit

The Fiscal Court Should Improve Controls Over Sub-Recipient Monitoring To Ensure Compliance With Applicable Laws And Regulations - This comment has been corrected and is not repeated in the current year audit report.

BOURBON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Other Supplementary Information

For The Year Ended June 30, 2004

BOURBON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information

Fiscal Year Ended June 30, 2004

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	Pass-Through <u>Grantor's Number</u>	<u>Expenditures</u>
Cash Programs :		
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through Governor's Office for Local Government:		
Community Development Block Grants - Rural Water Extension (CFDA # 14.228)	Not Available	\$ 252,485
<u>U.S. Department of Justice</u>		
Passed-Through State Justice Cabinet: Violence Against Women Grant (CFDA # 16.588)		
	Not Available	28,068
<u>U.S. Department of Transportation</u>		
Passed-Through State Transportation Cabinet:		
Highway Planning and Construction - Duncan Tavern Grant Phase II	Not Available	700
Duncan Tavern Grant Phase III	Not Available	36,900
Wright House	0272091	399,544
Cane Ridge Road (CFDA # 20.205)	Not Available	675,000
Total U.S. Department of Transportation		<u>1,112,144</u>
<u>U.S. Department of Agriculture</u>		
Passed-Through State Department for Rural Development:		
Rural Business Enterprise Grant - Farmer's Market (CFDA # 10.769)	Not Available	102,788
<u>U.S. Department of Homeland Security</u>		
Passed-Through State Department of Military Affairs:		
General Equipment Grant (CFDA # 97.004)	Not Available	\$ 8,995

BOURBON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information
Fiscal Year Ended June 30, 2004
(Continued)

U.S. Department of Homeland Security (Continued)

Passed-Through State Department
of Military Affairs (Continued):

Coordinator Salary (CFDA # 97.042)	Not Available	8,500
Public Assistance Grant (CFDA # 97.036)	Not Available	136,913
50/50 Siren Grant - Pre-Disaster Mitigation (CFDA # 97.047)	Not Available	12,811
Total U.S. Department of Homeland Security		<u>167,219</u>
Total Cash Expenditures of Federal Awards		<u>\$ 2,774,848</u>

BOURBON COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information
Fiscal Year Ended June 30, 2004

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Bourbon County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donnie Foley, Bourbon County Judge/Executive
Members of the Bourbon County Fiscal Court

**Report On Internal Control Over Financial Reporting And On Compliance And
Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, the blended components units, each major fund, and the aggregate remaining fund information of Bourbon County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements and have issued our report thereon dated August 18, 2005. Bourbon County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bourbon County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Bourbon County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting
And On Compliance and Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of Bourbon County Fiscal Court, management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 18, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donnie Foley, Bourbon County Judge/Executive
Members of the Bourbon County Fiscal Court

**Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Bourbon County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Bourbon County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Bourbon County's management. Our responsibility is to express an opinion on Bourbon County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bourbon County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Bourbon County's compliance with those requirements.

As described in item 2004-1 in the accompanying schedule of findings and questioned costs, Bourbon County did not comply with the monitoring requirements for contractors and subcontractors in regard to Davis-Bacon Act. This compliance requirement is applicable to its Highway Planning and Construction - Wright House Project and the Community Development Block Grant - Cane Ridge Road Project. Compliance with such requirements is necessary, in our opinion, for Bourbon County to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliances described in the preceding paragraph, Bourbon County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Bourbon County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Bourbon County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted one matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Bourbon County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2004-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe that the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 18, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

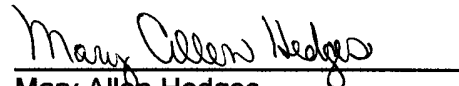
BOURBON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
BOURBON COUNTY FISCAL COURT
For The Fiscal Year Ended June 30, 2004

The Bourbon County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Donnie Foley
County Judge/Executive


Mary Allen Hedges
County Treasurer